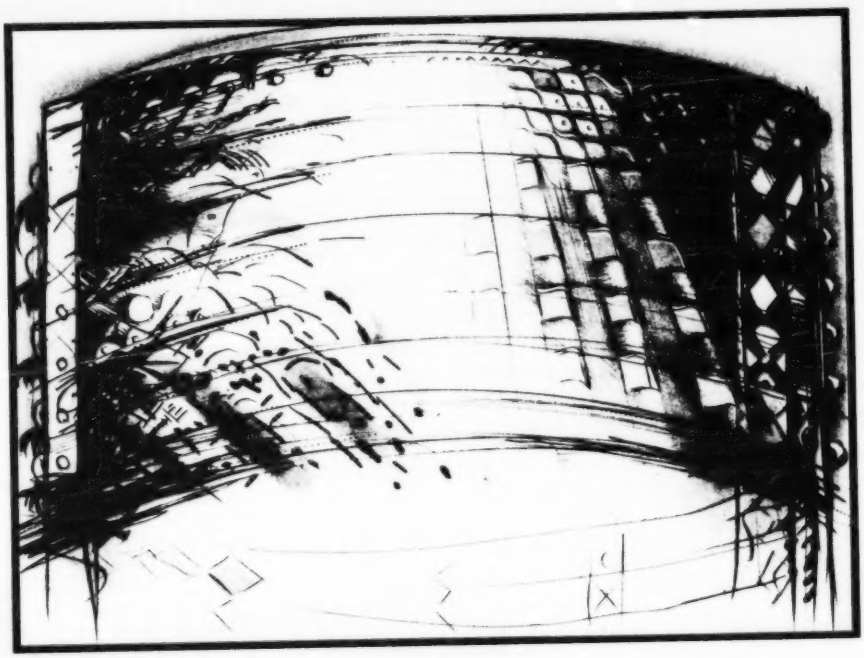
# SEVENTEENTH ANNUAL REPORT



loto-québec

# SOCIÉTÉ DES LOTERIES ET COURSES DU QUÉBEC

SEVENTEENTH
ANNUAL
REPORT
1986-1987

## ON THE SOCIAL BALANCE SHEET...

- Special contribution of one million dollars to Rendez-vous 87.
- The awarding of some $100,000.00 in research grants and university studies related to the field of games.
- Approximately $100,000.00 committed to the acquisition of works of art by Québec artists and $30,000.00 to the Loto-Québec Collection of engravings.
- More than $400,000.00 in sponsorships awarded to organizations conducting foot-races, cycling tours and folk festivals which promote Québec products or resources.

## ON THE OPERATIONAL AND COMMERCIAL BALANCE SHEET...

- The implementation of a pilot program for automatic lottery-ticket dispensers.
- An exhaustive review and assessment of all points of sale equipped with a terminal.
- The outfitting of a new documentation center.
- A call for tenders for the establishment of an auxiliary data processing center and a new bank of computers and terminals.

## ON THE FINANCIAL BALANCE SHEET...

| (in thousands of dollars) | 1987 | 1986 | Growth |
|---|---|---|---|
| Sales | **998,040** | 883,121 | 13.0% |
| Prizes | **460,311** | 409,753 | 12.3% |
| Net income before special contributions and commissions | **380,897** | 323,972 | 17.6% |
| Discounts to retailers | **53,047** | 48,049 | 10.4% |
| Stipends, salaries and social benefits paid to personnel | **26,887** | 26,434 | 1.7% |

# PRESIDENT'S REPORT

The progress of Loto-Québec is based on two major forces: its products and its personnel.

Total sales of Loto-Québec reached $998 million dollars, as compared with $883.1 million dollars for the preceding fiscal year, which attests to the dynamism of our marketing and promotional programs.

Net income before special contributions and commissions surpassed the $380 million dollar mark, compared with $323 million dollars for the preceding fiscal year. Loto-Québec increased its payment to the Minister of Finance from $339 million to $345 million.

Under the terms of Federal-Provincial agreements, Loto-Québec paid to the Government of Canada some $19 million dollars, $9 million of which for the Calgary Winter Olympic Games. During the year under review, the Société also made an exceptional contribution of $1,000,000. to the organizing committee of Rendez-vous 87, from revenues generated through the Loto-Hockey Instant Lottery, associated with that event.

With regard to its personnel during fiscal 1986-1987, Loto-Québec experienced one of the most difficult periods of its 17-year existence, since one of the cornerstones of its foundation was shaken by a strike of its employees, members of the Syndicat des travailleurs et travailleuses de Loto-Québec; the strike extended beyond the past fiscal year and was ultimately settled by an aggreement running over the next two years, signed on May 25, 1987.

In December of 1986, management had already concluded an agreement protocol with the Syndicat des Professionnelles et Professionnels du Gouvernement du Québec, which led to the official signing of an agreement on March 12, 1987.

While there is good reason to feel general satisfaction with these two agreements, which have restored our activities to normal, we must also pay a special tribute to our cadres and professionals, who, through their great zeal and abiding sense of responsibility, were able to maintain essential customer services during the labour conflict, thereby enabling us to attain, and even surpass our financial objectives.

I take this opportunity to express management's satisfaction at seeing all our employees back at work. We shall continue to do everything possible to ensure an acceptable working environment for all employees and an atmosphere of respect for the letter, as well as the spirit of our agreements.

During the year under review, the Board of Directors met on eleven occasions, while the Audit Committee held three meetings.

Several major projects were proposed and approved, and are now close to implementation. Later on in this report, each Vice-Presidency will present a brief outline of its major activities. I would like to draw attention to a few of these projects which have challenged the expertise of our management team.

The first is undoubtedly the project dealing with the acquisition of a new bank of terminals and the establishment of a second data processing centre. Of equal importance is the project for implementing automatic lottery ticket dispensers, presently in a test phase at a small number of points of sale. Also noteworthy was the revision of our methods of document management, which paved the way for the creation of a new archives centre.

During the year under review, Loto-Québec has maintained its role of leadership internationaly, and will continue to do so. I had the honour of being elected Secretary General of the International Association of State Lotteries (A.I.L.E.), while Loto-Québec itself assumed an active role as host of the Annual Meeting of the North American Association of State and Provincial Lotteries, held in Montreal, in June of 1987. We have also continued our established custom of receiving numerous foreign delegations to study how we do things.

During the coming fiscal year, Loto-Québec plans to complete its evaluation of suppliers' tenders regarding the supplementary bank of terminals and the auxiliary data processsing centre, while the automatic lottery ticket dispensers will have completed their test-phase. Moreover, a new type of lottery will be introduced and existing products will undergo either a complete face-lift or specific modifications. Thus, the conventional lotteries will be revitalized, while the 6/36 will be replaced by a new lottery "Sélect 42", better suited to compete with our flag-ship, LOTTO 6/49.

Loto-Québec's strategic plans of action will, first and foremost, aim at maintaining the growth of sales and revenues at a level equivalent or superior to the rate of inflation.

It is, therefore, with great satisfaction that I submit this report and confidently look forward to the coming fiscal year in which we will offer our customers a renewed range of products using orderly and equitable standards allied with the appropriate technological developments.

David Clark
President

# HIGHLIGHTS

## OFFICE OF THE PRESIDENT

***The principal mandate of the President's Office is to provide a privileged assistance to the President & Director-General in dealing with various strategic dossiers.***

This year, emphasis was concentrated on the finalization of an organization nomenclature, on the implementation of corporate management indicators and on certain strategic dossiers related to the long-term corporate development of Loto-Québec.

The Service of Organizational Development has continued to execute its mandate through such projects as Participatory Management by Objectives, an evaluation of managerial potential and the professional development for Cadres. Training programs for the management of stress, career orientation and support for the woman in the workplace have been maintained. Moreover, several scenarios and options have been analyzed in an effort to establish a personalized support program for employees.

## VICE-PRESIDENCY, CORPORATE AFFAIRS

***The Vice-Presidency for Corporate Affairs shoulders the various administrative units of the Société with the aim of promoting the development of the enterprise.***

The corporate secretariat continued its support functions of organizing the meetings of the Board of Directors and those of its Committees, as well as preparing applications for governmental approval.

The Legal Department undertook a critical analysis of the amendments made to the Criminal Code in December of 1985, concerning games of chance and wagers and provided support to the GALOT Project for the implementation of automatic ticket dispensers. This Department prepared a study for SODIC Québec Inc. defining the framework and status of the horse-racing industry in Québec; this study was incorporated into the Mireault Report. It continued to work closely with attorneys from the Interprovincial Lottery Corporation in an effort to find a solution to the problem of regulating the commercial trade-marks of Pan-Canadian games of chance.

***The Legal Department undertook a study on the legal implications of computerization, a subject broadly discussed by experts from various North American Lotteries during the General Assembly of the North-American Association of State and Provincial Lotteries (NASPL).***

The Documentation Center was transferred under the aegis of the Legal Department.

***The Planning Services undertook a review and an update of the orientations and objectives set forth in the strategic agenda of the Société.***

In an attempt at consolidation, it also undertook an updating and regrouping of the tactical plans and, in conjunction with the various Vice-Presidencies and Directorates, consolidated the annual plans of action.

In addition to the regular conduct of its current affairs, the Directorate of Public Affairs continued to serve as manager for l'Association Internationale des loteries d'État (A.I.L.E.) It coordinated and hosted the Annual General Assembly of the North-American Association of State and Provincial Lotteries (NASPL), held from June 14th to 17th.

***The Directorate of Public Affairs also conceived and produced a new audio-visual profile of the Société and its accomplishments entitled: "Portrait of a Success Story". Lastly, the Directorate continued to discharge its managerial responsibilities in matters relating to cultural dossiers, Loto-Québec's Collections and the International Lottery Center.***

## VICE-PRESIDENCY, NEW MARKETS

The Vice-Presidency for New Markets continued its research into new types of games and wagers and new methods of distribution. One of its more noteworthy accomplishments during fiscal 1986-1987 was the elaboration of a pilot program for automatic lottery-ticket dispensers (GALOT). Such machines will be installed at various types of sales points on a 6-month trial basis during the coming fiscal year.

In addition to conducting research and tests in Loto-Québec's field of expertise, the New Markets group maintains important ties with numerous Québec universities.

***Loto-Québec contributed some $100,000.00 in bursaries and university research grants.***

## VICE-PRESIDENCY, HORSE RACING SODIC QUÉBEC INC.

Sodic Québec Inc., a Loto-Québec subsidiary, prepares separate financial statements.

The activities of this Vice-Presidency are not connected to those of the parent Société.

## VICE-PRESIDENCY, SYSTEMS

The Vice-Presidency for Systems formulated its agenda around three major spheres of activity: evaluation and revision of the data processing components for game systems, productivity of resources and customer services.

***Computer technology contributes in a very essential way to the marketing of the Société's products.***

The constituent elements related to the operation of computerized game systems were evaluated and revised in order to preserve this strategic advantage.

A detailed analysis of the operating environment, the computer centrals, the game terminals and the telecommunication systems was conducted in order to determine the requirements for performance, reliability and ease of operation. A call for tenders was launched at the very end of this fiscal year and these evaluations should yield concrete results over the next two years.

Loto-Québec considers the systems for games and those for management to represent distinct tactical, technological and organizational identities. Consequently, at the beginning of fiscal 1986, the Vice-Presidency for Systems initiated some organizational and structural changes affecting a large percentage of personnel. In the same perspective, plans for the logical and physical separation between computerized game systems and management systems were elaborated and gradually implemented.

***The capacity of the game systems was increased to 6,000 transactions per minute, representing a considerably higher access level.***

The productivity of resources and the support activities for the management of the enterprise were characterized by, among other endeavours, the inauguration of corporate projects such as "Payments to Winners" and "Portable Micro-computers for the Sales Network". The spectrum of users of sales-related data or data on human resources was broadened thanks to a greater integration of the micro-computer tools and the computer centrals. Productivity concerns were further reflected in a revision of the methods and tools employed for systems development, notably fourth generation languages and prototyping.

Diverse measures were instituted in order to ensure a maximum level of security for the data systems. Among these were included the administrative centralization of computer security and a program designed to sensitize personnel to this aspect of operations.

In implementing these projects, a very explicit emphasis was placed on user-oriented services and on making micro-computer tools available to managers.

## DIRECTORATE OF HUMAN RESOURCES

The Directorate of Human Resources centered its orientation on the client-approach axis in order to provide managers and employees with an efficient and personalized service.

It initiated a program for tightening the functions of Human Resources in order to ensure a greater cohesion and balance in the application of its administrative policies, at the same time, exerting a greater influence on the decision-making process of the enterprise.

The highlights of this Directorate included negotiations with the Syndicat de professionnelles et professionnels du gouvernement du Québec (S.P.G.Q.) leading to an agreement signed on March 12, 1987 and negotiations with the Syndicat des travailleurs et travailleuses de Loto-Québec (CSN) culminating in an agreement on May 25, 1987. It conducted a full review of the remuneration methods used for cadres and it firmly established the information system dealing with management of human resources.

As at March 31, 1987, the total number of persons employed by the Société stood at 648.

***The total monetary mass paid out to the personnel in salaries, wages, stipends and social benefits rose to $26,887,000.00, compared to $26,434,000.00 for 1985-1986.***

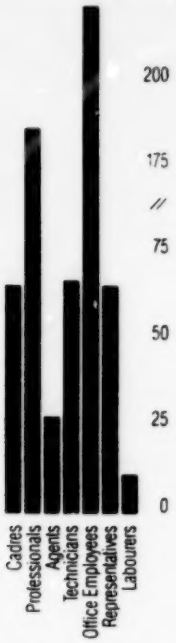
The Société also calls on wholesalers, self-employed workers, for regional distribution of its products.

## VICE-PRESIDENCY, LOTTERIES

The Vice-Presidency for Lotteries continued its efforts to maximize revenues through the lottery market.

In the Marketing Division, the group responsible for product development initiated a revitalization program for certain products; this was done not only to satisfy consumer preferences but chiefly to maintain a choice inventory of products to ensure a full share of the market.

In the Games-Network Processing Division, the great care taken in the maintenance of terminals and the tight control exerted over modifications and minor incidents resulted in a maximum stability level for the systems of terminal-generated sales.




In the Sales and Distribution Division, the implementation of the FLEPS system for payment of secondary prizes from instant lotteries resulted in a significant alleviation of administrative procedures.

In the Finance Division, the management systems and the services to the clientèle were upgraded.

During the course of the labour conflict, the Vice-Presidency for Lotteries maintained essential customer services.

## MARKETING

The Marketing Division is mandated to ensure Loto-Québec's financial growth in the field of lotteries and to promote public awareness of its diverse activities.

***The original sales objectives forecast for fiscal 1986-1987 were surpassed, with sales reaching the $988 million mark.***

In spite of the labour conflict, sales results confirm that developed products and their corresponding communication programs do yield results. This close monitoring of product performance, chiefly through data collected during the RADAR study (a major project designed to measure penetration, perception and customer expectations) paved the way for the development of a new bank of instant lotteries adapted to the FLEPS concept (fixed payments of secondary prizes directly from the retailer) as well as a new Québec lotto (Sélect 42) and an upgraded Inter-Loto.

In the Communications sector, all of the Société's publications have been revitalized and new ones are under production, with constant care taken to keep the clientèle adequately informed.

Openness, security and credibility still remain the three key objectives for the draws. A new drawing hall facilitated centralization and allowed a greater control over operations. The firm of Samson Bélair was completing its second year as auditor.

### *RETURN ON PRODUCTS*

As forecast, sales for the passive lotteries continued their decline, attenuated, nevertheless, by product readjustments and constant promotional efforts. Sélect 42, a new Québec lotto, was developed.

***Total revenues generated from terminal-games represented nearly 70% of sales.***

**LOTTO 6/49** experienced a banner year, with an increase of $166 million over the previous year. It contributed, single-handedly, nearly 60% of total sales, namely $593.2 million.

The **6/36** experienced a substantial decline. Having weakened in the face of performance figures from LOTTO 6/49, it would see itself replaced, in August of 1987, by Sélect 42. This change should allow us to recoup a good percentage of the losses.

La **Quotidienne** (The Daily) experienced a very slight increase. This game is favoured by a regular clientele.

The **Mini Loto** is on a slow decline.

The **Inter Loto** continued to decline. A change is planned for the autumn of 1987.

The **Provincial** experienced a slight increase, attributable to its excellent performance when offering bonus prizes. Some changes planned for fiscal 1987-1988 should allow this game to maintain its relative position.

In spite of undergoing a change in May of 1986, the **Super Loto** suffered a marked decline. Some important modifications to this game should be forthcoming over the next few months.

The **Instant Lotteries** have experienced a record year during fiscal 1986-1987. Eight products were marketed, with total sales reaching $132.6 million, an increase of 22% over the previous fiscal year.

The Société's gross income for the fiscal year under review reached $465,259,000., an increase of $56,697,000. over the preceding year.

The table below outlines the performance of each product and its resultant changes. As standard procedure in the field of lotteries, free tickets were entered in the accounts.

## SALES BY PRODUCT

| *(in thousands of dollars)* | **1986/87** | 1985/86 | Change |
|---|---|---|---|
| ***Passive Lotteries*** | | | % |
| Mini Loto | **56,810** | 70,101 | (19.0) |
| Inter Loto | **31,672** | 39,501 | (19.8) |
| Provincial | **43,608** | 42,506 | 2.6 |
| Super Loto | **39,069** | 45,821 | (14.7) |
| Gala 15E | **—** | 14,528 | (100) |
| Sub-Total | **171,159** | 212,457 | (19.4) |
| ***Semi-active Lotteries*** | | | |
| 6/36 | **82,769** | 116,908 | (29.2) |
| La Quotidienne | **18,249** | 18,253 | — |
| LOTTO 6/49 | **593,236** | 426,920 | 39.0 |
| Instant Lotteries | **132,627** | 108,583 | 22.1 |
| Sub-Total | **826,881** | 670,664 | 23.3 |
| ***Total*** | **998,040** | 883,121 | 13.0 |

In keeping with standard procedure, the Société pays out a guaranteed rate of return in prizes proportional to sales from its conventional lotteries: 44% for the Mini Loto, 41.5% for the Inter Loto and 45% for the Provincial and Super Loto, respectively. The unclaimed prizes from these lotteries are ultimately returned to consumers in the form of bonus prizes.

Since "on-line" terminal-games do not entail any unsold tickets, Loto-Québec guarantees a percentage of return equivalent, in principle, to the amount of prizes to be claimed. The theoretical rate of return is 48% for the 6/36, 45% for LOTTO 6/49 and 49% for La Quotidienne.

The rate of return in prizes for Instant Lotteries may vary slightly from one game to another. Loto-Québec generally sets the rate at between 48% and 50%. Free tickets are entered on the books under prizes paid.

Vendors of tickets that win prizes of $1,000.00 or more are awarded bonuses equivalent to 1% of the prizes paid out to winners.

## PRIZES PAID

| *(in thousands of dollars)* | **1986/87** | 1985/86 |
|---|---|---|
| Mini Loto | **24,998** | 30,063 |
| Inter Loto | **13,144** | 16,393 |
| Provincial | **19,738** | 19,191 |
| Super Loto | **20,905** | 25,568 |
| 6/36 | **39,969** | 56,339 |
| La Quotidienne | **7,871** | 8,923 |
| LOTTO 6/49 | **268,063** | 193,057 |
| Instant Lotteries | **65,623** | 53,245 |
| Gala 15E | **—** | 6,974 |
| ***Total*** | **460,311** | 409,753 |

## FINANCE

***The abiding objective of the Division for Finance is to ensure the optimum coordination and use of Loto-Québec's financial and physical resources.***

Accordingly, the Division was able to negotiate a new contract for financial services with a different banking institution.

It also implemented a new system for calculating payments to wholesalers and rationalized its inventory control costs, which resulted in the outfitting of a new warehouse.

In an effort to realize annual savings through its budgetary planning, the Division undertook an analysis of the financial requirements for specific areas of operations.

In the area of management of physical resources, the Division launched two important calls for tenders for the acquisition of automatic lottery-ticket dispensers, a computer central and an updated terminal-network for the "on-line" games.

The code of ethics of The Canadian Association of Purchase Controls is in effect.

The accounting systems were revised in order to achieve an even tighter functional control over operations. The monthly financial statements are presented in a way that facilitates the monitoring and interpretation of financial data. Lastly, the Division has adopted a more direct and personalized approach towards consumers, particularly in the area of payments to winners.

## GAMES-NETWORK PROCESSING

***The mission of the Games-Network Processing Division is to study and implement the technological resources necessary for the sale of lotteries through terminal systems.***

The Games-Network Processing Division has successfully maintained and, in certain cases, surpassed its initial objectives, namely, to provide the highest quality of services to retailers equipped with terminals; and this, in spite of the advancing age of a great number of terminals, 2,400 of which are more than 5 years old.

Thus, thanks to the implementation of upgraded controls bearing on modification to existing hardware and software resources, the stability of the central processing services experienced a marked improvement.

***The telecommunications network was also revised, resulting in a cost saving of some 9% over costs for the preceding year.***

In spite of the addition of terminals and the substantial restructuring of the systems, the stability of the network experienced a slight improvement.

The project "PLANET", carried out in collaboration with the Sales & Distribution Division, saw the exhaustive inspection of 4,000 points of sale equipped with terminals. This project made possible the standardization of more than 1,000 installations and the solution of initially chronic problems in the computerized network. Consequently, the total productivity of the bank of terminals surpassed the figures for the preceding fiscal year.

***The stability of the processing services, measured at the highest point of sales, represents 98.5% of the projected sale time, an increase of 0.5% over the preceding year.***

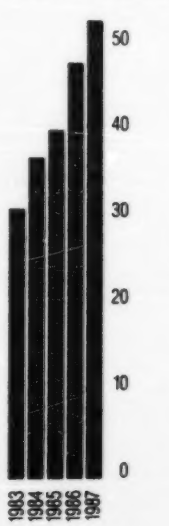
The Games-Network Processing Division also made significant contributions to the "ENJEU" project. It continues to maintain its objectives in respect to changes in lottery products and organizational adjustments in human and technological resources.

## SALES AND DISTRIBUTION

The principal activities of the Sales and Distribution Division centered around regional participation. Each of the ten offices or distribution centers carried out various retailer and consumer oriented promotions in its respective region, contributing to increased sales and enhancing the popularity of Loto-Québec's products.

Network development agents visited each and every retailer in an effort to optimize sales of computerized lotteries.

**DISCOUNTS TO RETAILERS**
(in thousands of dollars)



762 applications for terminals received from retailers were evaluated according to revenue-earning and service to the clientele standards.

***By decentralizing the information system, the network was able to provide broader support for its chief activities of sales management, ticket inventories, terminal distribution and services to retailers.***

The implementation of the FLEPS system for the fixed payment of secondary prizes from instant lotteries reduced substantially the administrative tasks of the network.

## *RETAILERS*

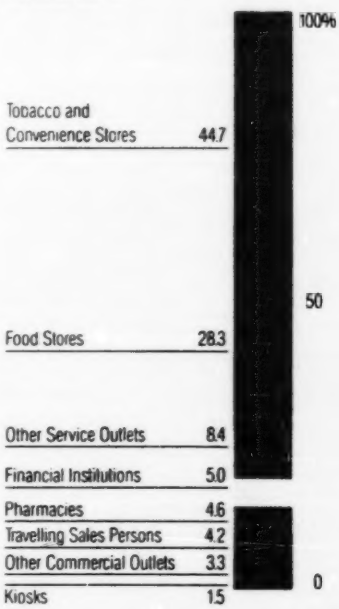
The Société entrusts the retailing of its products to holders of commercial trade permits.

Some 12,167 retailers, 4,105 of which are equipped with a terminal, comprise this retail network.

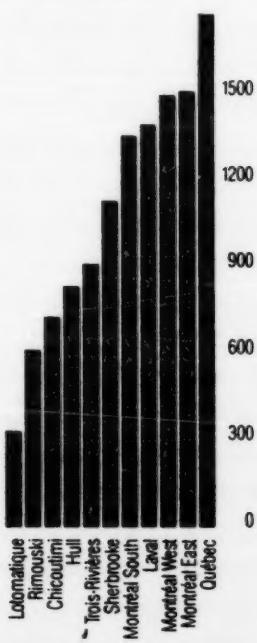
***Discounts to retailers reached some $53 million, as compared with $48 million for the preceding fiscal year, an increase of 10.4%.***

The discounts allotted to retailers are of 10% on Mini Loto sales and 5% on the sales of all other products. In addition to premiums and discounts, retailers also receive bonuses equivalent to 1% of all prizes of $1,000 or more. In 1986-1987 the Société paid out $1,782,000 to retailers in this capacity.

**DISTRIBUTION ACCORDING TO CATEGORY OF BUSINESS**




**DISTRIBUTION ACCORDING TO REGION**



# SOCIAL INVOLVEMENT

## LOTOMATIQUE

Non-Profit Organizations have exclusive rights to the sale of lottery subscriptions for Loto-Québec. As at March 31, 1987, 389 such Associations were accredited, an increase of 60 members over fiscal year 1985-1986.

***Sales through the "Lotomatique" system reached $10,365,800, as compared with $9,433,679 for the preceding fiscal year, an increase of 9.9%.***

These accredited organizations have benefited from $499,441 in discounts and bonuses from Loto-Québec and, according to procedure, from $492,165 in government contributions.

## KIOSKS

According to policies established in 1979, the management of sales kiosks is entrusted to non-profit organizations who thereby obtain substantial revenues for their charitable works.

The majority of these kiosks, which number 179, are operated by such organizations.

## SPONSORSHIP PROGRAMS

During the year under review, three highlights marked the Société's social sponsorship program: the addition of a round of family cycling tours to the existing series of foot-races under the Circuit Mini Loto; the inauguration of a brand new, one-of-a-kind, mobile unit, a veritable centre of service and animation on wheels; and lastly, participation in various commercial and promotional activities throughout the entire Province.

A total of eleven cycling tours were added to the 17 footraces under the Circuit Mini Loto, with the winners being crowned at Loretteville, at the Meet of Champions. More than 55,000 spectators and contestants participated in this program during the season.

During the past fiscal year, thirty-nine festivals received tangible support from Loto-Québec, as did the St. Jerome Organizing Committee of the Québec Games and the team representing Québec at the Canada Games.

During the year, the mobile service unit travelled more than 18,000 kilometers and visited no less than 63 towns throughout Québec.

## LOTO-QUÉBEC COLLECTIONS

***The Société conducts two programs of involvement with the arts in Québec.***

Now in its ninth year, the Collection of original engravings, whose aim is to promote the art of engraving in the Province, published two art books by Québecois artists crowned at its annual competition.

These art-books, distributed to distinguished personalities or during special events, make our artists better-known not only in Québec but also abroad.

The illustration which adorns this report is part of this prestigious Collection and, as is our custom, is offered to you in the form of an insert.

On a second level, the Société has committed some $100,000. for the acquisition of works by artists from all regions of Québec.

The Société is now in a position to collaborate with houses and regional centres of culture in propagating and extolling our native artistic heritage.

# REPORTS

## DIRECTORS' REPORT

The Board of Directors is responsible for the consolidated financial statements to the Shareholder. The responsibility for preparing them is delegated to General Management, while the Auditing Committee sees to revisions.

Management maintains a system of internal control in order to present reliable financial statements. The Internal Auditing Service constantly oversees the smooth functioning of the system.

The consolidated financial statements are prepared according to generally accepted accounting principles which, in certain cases, call for judgments on the part of Management.

By law, the Auditor General of Québec is appointed as the auditor of the books and accounts of the Société.

The Auditing Committee and the Auditor General meet with Management to discuss questions pertaining to auditing and to consolidated financial statements. The President Director-General is ex-officio member of the Auditing Committee. The other members are not connected with the Société, except as administrators.

Upon recommendation of the Auditing Committee, the Board of Directors has approved the consolidated financial statements of the Société for the fiscal year ended at March 31, 1987.

David Clark
Francine Harel-Giasson

## AUDITOR'S REPORT

I have examined the consolidated balance sheet of Loto-Québec as at March 31, 1987, the consolidated statement of earnings, the consolidated statement of retained earnings and the consolidated statement of changes in liquidities for the year ended at that date. My examination was carried out according to generally accepted accounting standards and, accordingly, included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of Loto-Québec as at March 31, 1987, the results of its operations and the changes in the financial position for the year ended at that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Rhéal Chatelain, F.C.A.
Auditor General of Québec

Québec, September 11, 1987

# CONSOLIDATED BALANCE SHEET

AS AT MARCH 31, 1987
LOTO-QUÉBEC
(L.R.Q., c. S-13.1)

| ASSETS (in thousands of dollars) | 1987 | 1986 |
|---|---|---|
| ***Current*** | | |
| Cash and term deposits | **53,511** | 36,159 |
| Advance to subsidiary Lotim Inc. *(Note 3)* | **951** | 1,233 |
| Receivables *(Note 4)* | **13,531** | 15,558 |
| Prepaid expenses | **4,377** | 2,839 |
| | **72,370** | 55,789 |
| ***Investment*** | | |
| Wholly-owned subsidiary *(Note 5)* | **—** | — |
| ***Fixed Assets*** *(Note 6)* | **44,452** | 49,940 |
| | **116,822** | 105,729 |

| LIABILITIES (in thousands of dollars) | 1987 | 1986 |
|---|---|---|
| ***Short term*** | | |
| Bank loan | **—** | 14,774 |
| Prizes payable | **4,029** | 10,007 |
| Dividend to be paid to the Minister of Finance | **41,000** | 29,000 |
| Accounts payable and accrued liabilities | **26,538** | 23,624 |
| Unclaimed prizes *(Note 7)* | **5,626** | 3,256 |
| Deferred income - Lottery tickets | **16,769** | 15,823 |
| | **93,962** | 96,484 |
| ***Liabilities resulting from Capital Leases*** *(Note 8)* | **1,714** | 3,474 |

## SHAREHOLDERS EQUITY

| | | |
|---|---|---|
| Capital shares authorized, issued and paid: | | |
| 1,700 shares | | |
| with a par value of $100 each | **170** | 170 |
| Retained earnings | **20,976** | 5,601 |
| | **21,146** | 5,771 |
| | **116,822** | 105,729 |

***Contingencies*** *(Note 12)*

On behalf of the Board of Directors

David Clark
Francine Harel-Giasson

## Consolidated Statement of Retained Earnings

| for the year ended March 31, 1987 (in thousands of dollars) | 1987 | 1986 |
|---|---|---|
| Balance at beginning of year | **5,601** | 41,930 |
| Net income | **360,375** | 302,671 |
| | **365,976** | 344,601 |
| Dividend paid to the Minister of Finance | **345,000** | 339,000 |
| Balance at end of year | **20,976** | 5,601 |

## Consolidated Statement of Earnings

| for the year ended March 31, 1987 (in thousands of dollars) | 1987 | 1986 |
|---|---|---|
| ***Sales*** – Lottery tickets | **998 040** | 883 121 |
| ***Cost of Sales*** | | |
| Prizes paid | **460,311** | 409,753 |
| Discounts to retailers | **53,047** | 48,049 |
| Printing of tickets | **19,423** | 18,757 |
| | **532,781** | 476,559 |
| ***Gross Income*** | **465,259** | 406,562 |
| ***Operating Expenses*** | | |
| Advertising and Communications | **17,650** | 17,630 |
| Distribution and Sales | **16,649** | 16,025 |
| Data Processing | **23,646** | 23,102 |
| Administration | **17,475** | 17,802 |
| Research and Development | **1,209** | 947 |
| Depreciation of fixed assets | **10,564** | 10,119 |
| | **87,193** | 85,625 |
| Income from interest – net *(Note 9)* | **2,831** | 3,035 |
| | **84,362** | 82,590 |
| ***Income before the following items*** | **380,897** | 323,972 |
| Payment to the Government of Canada further to its withdrawl from the conduct of lotteries *(Note 10)* | **19,030** | 20,797 |
| Special contribution to Event: Rendez-vous 87 | **1,000** | – |
| Special commissions to non-profit organizations *(Note 11)* | **492** | 504 |
| | **20,522** | 21,301 |
| ***Net Income*** | **360,375** | 302,671 |

# Consolidated Statement of Changes in Liquidities

| for the year ended March 31, 1987 *(in thousands of dollars)* | **1987** | 1986 |
|---|---|---|
| ***Operating activities*** | | |
| Net Income | **360,375** | 302,671 |
| Items not affecting liquidities | | |
| Depreciation of fixed assets | **10,564** | 10,119 |
| Funds from operations | **370,939** | 312,790 |
| Changes in non liquid short-term assets and liabilities | **13,023** | 32,113 |
| Funds provided by operating activities | **383,962** | 344,903 |
| ***Financing activities*** | | |
| Dividend paid to the Minister of Finance | **(345,000)** | (339,000) |
| Liabilities resulting from capital leases - Net | **(1,760)** | 185 |
| Funds used for financing activities | **(346,760)** | (338,815) |
| ***Investing activities*** | | |
| Acquisition of fixed assets | **(5,283)** | (7,164) |
| Acquisition of equipment under capital leases | **(63)** | (1,966) |
| Proceeds from disposal of equipment under capital leases | **270** | — |
| Funds used for investing activities | **(5,076)** | (9,130) |
| ***Increase (decrease) of liquidities during the period*** | **32,126** | (3,042) |
| ***Balance at beginning of year*** | **21,385** | 24,427 |
| ***Balance at end of year*** | **53,511** | 21,385 |

Loto-Québec's liquidities include cash and term deposits less the bank loan.

# ACCOMPANYING NOTES

## 1. STATUTES AND FUNCTIONS

La Société des loteries et courses du Québec, also designated as Loto-Québec, is a provincial crown corporation all of whose shares are held by the Government of Québec. According to its enabling Act, its function is to conduct and manage lottery systems and, if so authorized by the government, to hold races and promote the breeding of race horses in the Province of Québec. In addition, and in return for financial or other considerations, the Société may offer consultation and implementation services in the areas of its competence.

## 2. SUMMARY OF MAIN ACCOUNTING POLICIES

The consolidated financial statements of Loto-Québec have been prepared by management in accordance with generally accepted accounting principles, with the reasonable limits of their relative importance and within the framework of the following accounting principles:

### *Consolidation*

The consolidated financial statements group the accounts of Loto-Québec with those of Lotim Inc., a wholly-owned subsidiary, as at December 31, 1986.

Regarding the participation of Loto-Québec in SODIC Québec Inc., a wholly-owned subsidiary, it is carried at cost, since it is unlikely that the increase in the net assets of this subsidiary will effectively accrue to Loto-Québec.

### *Fixed Assets*

Fixed assets are presented at their original cost and are depreciated according to their estimated useful life, using the following straightline method rates:

| | |
|---|---|
| Building | 2% |
| Office Furniture | 10% |
| Equipment | 33⅓% and 20% |
| Improvements to rental holdings | 20% and 10% |
| Rolling stock | 30% |

***Liabilities resulting from Capital Leases***

The assets and obligations accruing from lease-purchase contracts are entered at the current value of payments to be made and are treated as asset acquisition and loans; these assets are depreciated according to the same method utilized for other fixed assets.

The rents payable under lease-operation contracts are carried under consolidated earnings.

***Income***

Gross income from the sale of lottery tickets is recorded as of the date of the draw, with the exception of income originating from instant lotteries which is entered at the time of sale.

Lottery tickets sold as at March 31 for draws subsequent to that date, except for instant lotteries, are treated as deferred income. Discounts to retailers on these sales are carried as prepaid expenses.

***Prizes paid***

In addition to cash prizes, Loto-Québec also awards free tickets. The value ascribed to these prizes is equal to the price of sale and is entered under Sales as Income and under Prizes paid as Expenses.

## 3. ADVANCE TO SUBSIDIARY – LOTIM INC.

An advance made to this wholly-owned subsidiary from January 1, 1987 to March 31, 1987; (in 1986: from January 1, 1986 to March 31, 1986).

## 4. RECEIVABLES

| *(in thousands of dollars)* | **1987** | 1986 |
|---|---|---|
| Retailers | **4,312** | 6,242 |
| Wholesalers | **3,256** | 4,673 |
| Interprovincial Lottery Corporation | **5,069** | 4,115 |
| Miscellaneous | **894** | 528 |
| | **13,531** | 15,558 |

## 5. INVESTMENT

As at March 31, 1987, Loto Québec holds all the capital shares of SODIC Quebec Inc., that is, one common share at a par value of $10.00. As at March 31, 1987, the audited financial statements of SODIC Quebec Inc. show a book value of $1,430,698. (in 1986: $1,841,445.).

On August 26th, 1987, the Government authorized Loto-Québec to sell this action to the Minister of Agriculture, Pêcheries et Alimentation for an amount equal to its par value of $10.

## 6. FIXED ASSETS

| *(in thousands of dollars)* | | **1987** | | 1986 |
|---|---|---|---|---|
| | Cost | Accum. Deprecia. | Net | Net |
| *Land | **2,709** | — | **2,709** | 2,709 |
| *Building | **15,504** | **1,090** | **14,414** | 14,839 |
| *Construction in progress | **2,758** | — | **2,758** | 1,319 |
| Leasehold improvements and outfitting | **10,021** | **3,189** | **6,832** | 5,668 |
| Equipment | **50,932** | **38,748** | **12,184** | 18,043 |
| Office furniture and rolling stock | **4,826** | **2,025** | **2,801** | 3,056 |
| | **86,750** | **45,052** | **41,698** | 45,634 |
| Leaseholdings under capital leases: | | | | |
| Data-processing equipment | **6,770** | **4,016** | **2,754** | 4,306 |
| | **93,520** | **49,068** | **44,452** | 49,940 |

*In joint tenancy with Immeubles Cadimont Inc.

## 7. UNCLAIMED PRIZES

Unclaimed prizes in the Mini Loto, Inter Loto and the 6/36 are entered under a provision for their subsequent distribution as bonus prizes.

## 8. LIABILITIES RESULTING FROM CAPITAL LEASES

| (in thousands of dollars) | 1987 | 1986 |
|---|---|---|
| Liabilities resulting from capital leases, with rates varying from 13% to 26%, maturing until 1991 | **3,312** | 4,906 |
| Payments maturing within one year (included with accounts payable and accrued liabilities) | **1,598** | 1,432 |
| | **1,714** | 3,474 |

The following table specifies the minimum payments to be made in pursuance of all liabilities resulting from capital leases:

| (in thousands of dollars) | |
|---|---|
| 1988 | **2,021** |
| 1989 | **1,104** |
| 1990 | **840** |
| 1991 | **49** |
| Total minimum payments | **4,014** |
| Amount of interest included in the minimum payments | **702** |
| | **3,312** |

## 9. INTEREST INCOME – NET

| (in thousands of dollars) | 1987 | 1986 |
|---|---|---|
| Interest on current investments | **3,524** | 3,877 |
| Less: Interest resulting from capital leases | **693** | 842 |
| | **2,831** | 3,035 |

## 10. PAYMENTS TO THE GOVERNMENT OF CANADA FURTHER TO ITS WITHDRAWAL FROM THE CONDUCT OF LOTTERIES

Under an agreement between the Provincial Governments and the Federal Government concerning the latter's withdrawal from the conduct of lotteries, the Provinces annually remit to the Federal government the sum of 24 million dollars, in 1979 dollars. Moreover, under a second agreement, retroactive to 1985, the Provinces will also turn over to the Federal Government an additional sum of 100 million dollars, distributed over the next three years.

The Québec government's share is payable by Loto-Québec according to an agreement concluded between the Provinces and the regional lottery corporations. Loto-Québec will turn over approximately 20 million dollars as its contribution for fiscal 1987-1988.

## 11. SPECIAL COMMISSIONS TO NON-PROFIT ORGANIZATIONS

Further to a decision by the Société's sole Shareholder, a commission equal to the discount offered to retailers is granted to non-profit organizations engaged in the selling of lottery tickets through the "LOTOMATIQUE" subscription system.

## 12. LEASE OBLIGATIONS

Under a lease agreement expiring in 2003, the Société is committed to pay a minimum of $54,419,724 for the rental of premises occupied by its Head Office in a building held in joint tenancy with Immeubles Cadimont Inc.

Rental expenditures for the year ended March 31, 1987 are $3,401,233; (in 1986: $3,401,233). The consolidated rental expenditures are $1,700 616.

The minimum annual rental payment for each of the next five years is fixed at $3,401,233.

# COMPARATIVE RESULTS

The comparative results figures for the past five years attest to the continuing growth of the Société and to the considerable sums it has turned over to the Government, to the benefit of all Quebecers

## CONSOLIDATED EARNINGS

| *(in thousands of dollars)* | **1987** | 1986 | 1985 | 1984 | 1983 |
|---|---|---|---|---|---|
| ***Sales*** – Lottery tickets | **998,040** | 883,121 | 741,102 | 662,177 | 541,411 |
| ***Cost of sales*** | | | | | |
| Prizes paid | **460,311** | 409,753 | 342,086 | 304,682 | 252,592 |
| Discounts to retailers | **53,047** | 48,049 | 40,973 | 37,518 | 31,207 |
| Printing of tickets | **19,423** | 18,757 | 17,454 | 17,306 | 16,961 |
| | **532,781** | 476,559 | 400,513 | 359,506 | 300,760 |
| ***Gross income*** | **465,259** | 406,562 | 340,589 | 302,671 | 240,651 |
| ***Operating costs*** | | | | | |
| Advertising and Communication | **17,650** | 17,630 | 16,079 | 15,020 | 15,260 |
| Distribution and Sales | **16,649** | 16,025 | 16,759 | 16,867 | 16,117 |
| Data Processing | **23,646** | 23,102 | 20,216 | 16,635 | 22,262 |
| Administration | **17,475** | 17,802 | 18,014 | 14,327 | 11,113 |
| Research and Development | **1,209** | 947 | 608 | — | — |
| Depreciation of fixed assets | **10,564** | 10,119 | 8,256 | 8,318 | 5,818 |
| | **87,193** | 85,625 | 79,932 | 71,167 | 70,570 |
| Net – interest revenue | **2,831** | 3,035 | 2,131 | 1,276 | 2,576 |
| | **84,362** | 82,590 | 77,801 | 69,891 | 67,994 |
| ***Income before the following items*** | **380,897** | 323,972 | 262,788 | 232,780 | 172,657 |
| Payment to the Government of Canada further to its withdrawal from the conduct of lotteries | **19,030** | 20,797 | 9,468 | 9,217 | 8,965 |
| Special contribution to Event : Rendez-vous 87 | **1,000** | — | — | — | — |
| Special commissions to non-profit organizations | **492** | 504 | 401 | 443 | 277 |
| | **20,522** | 21,301 | 9,869 | 9,660 | 9,242 |
| ***Net income*** | **360,375** | 302,671 | 252,919 | 223,120 | 163,415 |

# LOTO-QUÉBEC

**FOR THE FISCAL YEAR APRIL 1, 1986 TO MARCH 31, 1987.**

## HEAD OFFICE

LOTO-QUÉBEC
Sodic Québec inc.
Lotim Inc.
500, Sherbrooke Street West
Montréal H3A 3G6
(514) 282-8000

## BOARD OF DIRECTORS

David Clark
President and Director-General

Denis Vandry
Deputy Director-General and Vice-president, Horse-Racing

** Marthe Bouchard-Hatch
** Reynald Brisson
* Jacques Desmeules, c.a.
* Francine Harel-Giasson

Secretary
Marguerite Bourgeois

*Members of the Audit Committee*
**Members of the Salary and Benefits Committee*

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Vice-president, Corporate Affairs
Vice-president, Horse-Racing
Vice-president, New Markets
Vice-president, Systems
Vice-president, Lotteries
Manager of the President's Office
Manager of Human Resources

## GENERAL MANAGEMENT

Manager of the President's Office
Pierre l'Archevêque
Assistant to the President

Manager of Human Resources
Joanne Drapeau

Manager of Internal Auditing
Jacques Dubois

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Marguerite Bourgeois

Director of Public Affairs
Michel Labrosse

Planning Department

Legal Department

Documentation Management Department

## VICE-PRESIDENT, HORSE RACING

(Sodic Québec Inc.)
Denis Vandry

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Manager, Development
Vincent Trudel

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Manager, Games Systems
Robert Durocher

Manager, Managing Systems
Jean-Marie Dumont

Manager, Systems Operations
Manon Derome

Quality-Insurance and Security Department

Information Management Department

## VICE-PRESIDENT, LOTTERIES

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Manager, Finances
Gilles Dubé

Manager, Sales and Distribution
Hervé Bellerive

Manager, Marketing
Robert Ayotte

Manager, Games-Network
Rosaire Bachand

## OPERATIONS CENTRES

Laval
1699, St-Martin Blvd. West
Laval H7S 1N2
(514) 682-2525

Montréal-Ouest
1238, Beaumont Street
Town of Mount-Royal H3P 3E3
(514) 735-4133

Montréal-Est
7070, Beaubien Street East
Anjou H1M 1B2
(514) 873-2603

Montréal-Sud
470, Ste-Foy Street
Longueuil J4J 1Y2
(514) 651-9282

Québec
2200, Charest Blvd. West
Sainte-Foy G1N 2G3
(418) 643-8996

## REGIONAL OFFICES

Sherbrooke
145, Radisson Street
Sherbrooke J1L 1E2
(819) 566-2161

Chicoutimi
345, des Saguenéens Street
Chicoutimi G7H 6K9
(418) 545-4522

Rimouski
92, 2nd Street West
Rimouski G5L 8B3
(418) 722-3658

Trois-Rivières
5000, Jean XXII Blvd.
Trois-Rivières West G8Z 4L1
(819) 373-2633

Hull
975, Saint-Joseph Blvd.
Suite 220
Hull J8Z 1W8
(819) 778-0586

# SUBSIDIARIES

## LOTIM INC.

***A wholly-owned subsidiary of Loto-Québec.***

LOTIM Inc. manages Loto-Québec's holdings in the building located at 500 Sherbrooke West; this building, which houses Loto-Québec's Head Office, was purchased jointly, in 1983, with a subsidiary of La Caisse de dépôt et placement du Québec.

The fiscal year which has just ended represents a pivotal year for the operations of 500 WEST.

In fact, renovations aimed at correcting major deficiencies and construction projects to expand and diversify the commercial facilities have now been completed.

***The office occupancy rate of the building is at 90% while available commercial facilities are occupied at a rate of 100%.***

This impressive rate of occupancy was achieved at a time when the market was particularly competitive.

Fiscal 1986, before financing and depreciation costs, ended with an operational profit of $2,791,247. for the owners of 500 WEST, on which $1,395,624. went to LOTIM Inc. compared with an operational profit of $566,100. for the owners in the preceding fiscal period, with $283,050. going to LOTIM Inc.

***The financial statements of LOTIM Inc. for the year ended December 31, 1986 have been consolidated with those of Loto-Québec.***

## SODIC QUEBEC INC.

***A wholly-owned subsidiary of Loto-Québec.***

The activities of SODIC QUEBEC INC. are focused on the promotion and development of the horse racing industry in Québec.

Loto-Québec and its subsidiary do not form an integral whole so that the latter's accounts are not consolidated with those of the parent Company.

SODIC QUÉBEC INC. prepares its own financial statements which are filed separately with the appropriate governmental authorities.

Public Affairs Directorate
Michel Labrosse

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Bureau 2000
Montréal (Québec)
H3A 3G6

## *The Invisible Man's Tump-Line*
## *Micmac Legend*

When the first spring breezes wafted in that year a young stranger presented herself at the village accompanied, she said, by her brother **Kak-tou-oua-sis**, bestowed by his medicine man with the gift of invisibility.

Respectful of the great Micmac tradition for hospitality, the Chief accorded them permission to erect their lodge upon the field. It was set up in short order, richly endowed with furs, meats and fishes, for **Kak-tou-oua-sis** was adept at everything. He then made the announcement, through his sister **Numis-cal**, that he wished to wed the first young maiden who succeeded in seeing him.

Therefore in succession before the lodge came the loveliest and noblest maidens of the tribe attempting in vain to describe the wide tump line encircling the invisible man's brow. "It is of deerskin, of leather, of braided roots, of caribou skin, of bearskin, of human skin," they said by turns. **Numis-cal** sent them away, politely but firmly.

None remained by an ill-used young girl of the village, nicknamed **Ouchi-gué-aské** "the Mangy One" due to the hard life her sisters had imposed on her.

Now, one night, **Ouchi-gué-aské** saw the hunter in a dream. And since these are sacred, it was a duty to allow her in her birchbark dress adorned in a necklace of dried cranberries, her hair bound back by a larch root, and shod in her father's worn moccasins, to take before the lodge.

"The one who comes," she said immediately, "I see his forehead, encircled by an arc of all the colors that make the sky, iridescent after a thunder storm."

No sooner was it uttered than **Ouchi-gué-aské's** garb changed to a bridal dress and her form became resplendent with youthful radiance. And Little Thunder, for that's who he was, carried her away into the sky, his sister The Rain screening their departure.

On certain days, we can still see the invisible man's tump-line, a beam of colors in the amber sky, spreading a trail of happiness that fades off into the confines of the universe.

***The Invisible Man's Tump-Line,***
a Micmac legend, original etching, part of the Loto-Québec Collection.
Artist: *Paul Cloutier*
Collection Director: *Michel Labrosse*
Technical Director: *Louis Pelletier*
The original engraving was edited in 83 prints signed by the artist.